

Third-Party Electronic Access

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Third-Party Electronic Access

- Effective March 1, 2014
- A “closed system” for electronic access:
 - direct electronic access
 - routing arrangement
 - order execution service
- Rules apply if client orders are not handled by staff of the Participant
- Expands existing DMA framework by capturing:
 - all forms of electronic access (e.g.: OMS)
 - participants executing electronically for investment dealers

Requirements

- Standards to manage the attendant risks
- Written agreement
- Supervisory and compliance procedures
- Gatekeeper procedures for reporting non-compliance
- Unique client identifiers

Regular Review

- Annual review of Participant's practices:
 - standards are adequate and have been maintained and consistently applied
- Annual review of client's practices:
 - compliance with written agreement
 - meets Participant's standards
- Automated Order Systems at client must be tested at least annually
 - order execution service clients cannot use their own automated order systems

Reporting

- Client name and identifier to IIROC via EMX
 - same EMX address as ETR reporting
- Gatekeeper reporting if client has breached a material provision of:
 - a standard
 - the written agreement

Implications on Dealers and Markets

- **Systems and technology**
 - **Add complexity to trading (single point of failure)**
 - **Need for a back-up/BCP**
 - **Oct 21, 2013 TMX Group's Risk-Management Service Provider [Mantara] in Bankruptcy Protection** "We are providing continuity to the clients who signed up for that product," a TMX spokeswoman said. "It was a product we created to be helpful to clients; there is no regulatory requirement to provide it."
 - **Risk systems are expensive (buy, build or rent?)**
 - **KYC and KYP settings (flexibility)**
 - **Coordinate controls with clients (internal and external)**
 - **Vendors are not regulated entities**

Hierarchy of Risk and Control

1. Initial Order – human check (registrant accepts order)
2. Entry of Order – system check for all fields (fat finger)
3. Risk check (single name, net exposure, day light aggregate limit, settlement limit, sector, liquidity, volatility etc.)
4. Compliance Check (short marking or order attributes such as NCIB)
5. Smart Order Router (order protection rule)
6. Marketplace Order Acceptance (valid symbol, fields and order attributes)
7. Market state check (single stock circuit breakers, price parameters, freezes, halts etc.)
8. Post trade reporting and trade matching
9. Allocation and settlement
10. Confirmation and statements - human check (client reviews order)